

## Message Text

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60

ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

RSR-01 AID-20 EB-11 CIEP-02 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 XMB-07 AGR-20 /153 W

----- 117844

R 051107 Z APR 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 0790

C O N F I D E N T I A L PHNOM PENH 3216

FOR STATE/ AID

E. O. 11652: GDS

TAGS: EFIN, CB

SUBJECT: RICE PRICE

1. WE RECEIVED A COPY OF A PAPER FROM THE MINISTRY OF FINANCE THAT IS TO BE DISCUSSED BY THE CABINET CONCERNING THE PRICE OF RICE AND ITS BUDGETARY IMPACT. WHILE THE ANALYSIS IS BRIEF IT IS TO THE POINT. IT NOTES THAT UNDER THE PRESENT SYSTEM OF SUBSIDIZED PRICES RICE IS " EXPORTED" TO THE ENEMY ZONE AND BORDER COUNTRIES FOR GREATER PROFIT; THERE IS NO INCENTIVE TO PRODUCE; SPECULATION IN THE OPEN MARKET IS GREAT GIVING EXCESS PROFITS TO MIDDLEMEN; THE BUDGET' S REVOLVING FUND FOR RICE WILL BE EXHAUSTED QUICKLY; EFFICIENT ADMINISTRATIVE CONTROL IS DIFFICULT ( EMB NOTE: IN PRIVATE GKR OFFICIALS HAVE ADMITTED THAY CANNOT CONTROL THE PRICE) AND DONOR COUNTRIES ARE CONCERNED ABOUT THE SITUATION.

2. THE SOLUTION PROPOSED IS TO SET REALISTIC PRICES RELATED TO THE PRESENT COST OF PADDY AND AT THE SAME TIME RAISE THE COST OF LIVING ALLOWANCES FOR GOVERNMENT EMPLOYEES TO OFFSET THE INCREASE IN PRICE. THE PAPER LISTS THE FOLLOWING PRICES:

TYPE	NEW PRICE	OLD PRICE
	PER 1 00 KG	PER 100 KG
RICE: NO.1-15	PERCENT NOT FIXED	2,600 RIELS

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NO.1-25 PERCENT	3,70 RIELS	2,400 RIELS
NO.1-50 PERCENT	3,450 RIELS ( ALSO	2,200 RIELS
EQUIVALENT TO PL 480 PRICE)		
NO.2-50 PERCENT	3,200 RIELS	2,000 RIELS
BROKENS:1/2	2,600 RIELS	1,000 RIELS
3/4	1,900 RIELS	600 RIELS
FLOUR:	1,200 RIELS	500 RIELS

3. THE PAPER PROJECTS AN INCREASE IN THE COST OF LIVING ALLOWANCE OF 700 RIELS PER GOVERNMENT EMPLOYEE PER MONTH TO CUSHION THE IMPACT OF IMPLEMENTING THE PRICE POLICY. THIS WOULD HAVE AN ANNUAL COST OF 2.7 BILLION RIELS ( ASSUMING A FORCE LEVEL OF 250,000 AND 70,000 CIVIL SERVANTS) AND WOULD REPRESENT AN AVERAGE INCREASE OF JUST UNDER 10 PERCENT. THE 700 FIGURE IS DERIVED BY ASSUMING THE AVERAGE FAMILY SIZE IS FIVE PERSONS CONSUMING 400 GRAMS OF RICE EACH PER DAY OR ACTUALLY COMES TO 780 RIELS PER MONTH, HOWEVER, THE 700 FIGURE IS USED IN THE PAPER (700 IS MORE CONSISTENT WITH 350 GRAMS OF RICE CONSUMED PER PERSON PER DAY).

4. THE PAPER GOES ON TO POINT OUT THE REALISTIC PRICES WOULD INCREASE PRIVATE SECTOR RICE DISTRIBUTION, ENCOURAGE PRODUCTION, REDUCE SPECULATION, AND REDUCE GOVERNMENT SUBSIDIES BY ABOUT 270 MILLION RIELS PER MONTH. ( EMB NOTE: THERE IS NO ALLOWANCE IN THE GKR BUDGET FOR ANY RICE SUBSIDIES. CURRENTLY THEY ARE HANDLED BY THE TREASURY IN ACCOUNTS OUTSIDE THE BUDGET. IT IS UNCERTAIN WHERE THE 270 MILLION RIEL FIGURE CAME FROM AND WHAT IT INCLUDES. ON AN ANNUAL BASIS IT APPEARS TO APPROXIMATE THE TOTAL SUBSIDY THE GKR WOULD PAY THIS YEAR ON PL480 RICE IF THE LOCAL SELLING PRICE OF 22,000 PER METRIC TON WERE UNCHANGED. IF THAT IS WHAT THE 270 MILLION RIEL FIGURE REPRESENTS, THEN OF COURSE, THE GKR INCORRECTLY ESTIMATED THE SAVINGS FROM THE PROPOSED HIGHER PRICES AS THE INCREASE WILL ONLY REDUCE THE SUBSIDY BY 12,500 PER METRIC TON AND NOT ELIMINATE THE ENTIRE AMOUNT WHICH IS CURRENTLY ABOUT 46,000 PER METRIC TON. THE AMBASSY CALCULATES THE MONTHLY SAVING FROM A 13,000 PER METRIC TON INCREASE IN THE PRICE OF RICE TO BE 175 MILLION RIELS PER MONTH, BASED ON THE NORMAL DISTRIBUTION OF 450 METRIC TONS PER DAY.)

5. THE MISSION FEELS THE POSITION SET FORTH IN THIS PAPER IS SENSIBLE. NOW AS PREVIOUSLY, TYING THE RICE PRICES INCREASE TO CONFIDENTIAL

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A COST OF LIVING INCREASE IS PROBABLY THE ONLY WAY THAT THE

GKR WOULD BE ABLE TO SUCCEED IN MAKING A HIGHER PRICE FOR RICE STICK. IT IS UNCERTAIN WHAT CHANCE THIS PROPOSAL HAS OF BEING ACCEPTED IN ITS CURRENT FORM BY THE CABINET. WHEN THE CABINET WILL TAKE ACTION ON THESE MATTERS IS ALSO UNCERTAIN. ITH THUY IS OUT AS MINISTER FOR ECONOMIC AFFAIRS AND FINANCE. KEO MONG KRY IS TAKING OVER THE FINANCE PORTFOLIO ON AN AD INTERIM BASIS WHILE CONTINUING TO SERVE AS MINISTER OF EDUCATION. ITH THUY IS TO BECOME HEAD OF THE CAMBODIAN DEVELOPMENT BANK, REPLACING EAP KIM CHOAN. THE MISSION WILL FOLLOW THE DEVELOPMENTS CONCERNING THE PRICE OF RICE CLOSELY.

6. IMF REPRESENTATIVE EVERS HAS INFORMED US THAT NEXT WEEK HE IS PLANNING TO URGE THE PRIME MINISTER TO ACT ON THIS PROPOSAL.  
SWANK

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* CONFIDENTIAL

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**Current Classification:** UNCLASSIFIED  
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**Disposition Approved on Date:**  
**Disposition Authority:** garlanwa  
**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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**Subject:** RICE PRICE  
**TAGS:** EFIN, CB  
**To:** EA  
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